REPORT ON EXAMINATION

OF

THE PENN INSURANCE AND ANNUITY COMPANY

AS OF

DECEMBER 31, 2006

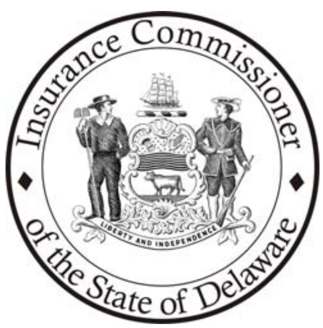
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

PENN INSURANCE AND ANNUITY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 31 JANUARY 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 31ST DAY OF JANUARY 2008.

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

PENN INSURANCE AND ANNUITY COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 31ST Day of JANUARY 2008.

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October 2, 2007

Honorable Mathew P. Denn
Insurance Commissioner
State of Delaware Insurance Department
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-009, an examination has been made of the affairs, financial condition and management of the

THE PENN INSURANCE AND ANNUITY COMPANY

hereinafter referred to as “PIAC”, or “Company”, incorporated under the laws of the State of Delaware. The main administrative office of the Company is located at 1209 Orange Street, Wilmington DE 19801. The examination was conducted at 600 Dresher Road, Horsham, PA 19044, which is the location of the primary accounts and records of the Company.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination of PIAC was conducted as of December 31, 2003. This examination covered the period from January 1, 2004 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Fidelity Bond & Other Insurance
Legal Actions
Conflict of Interest Statements
Officers and employees welfare/benefits
All Asset & Liability items not mentioned

The December 31, 2006 examination was conducted by the Delaware Insurance Department in accordance with the Examination guidelines established by the National Association of Insurance Commissioners. Due to the fact that PIAC is not a nationally significant company, an Association Examination was not called. Therefore, no states in addition to the State of Delaware participated in the examination.

HISTORY

The Company was incorporated under the laws of the State of Delaware on July 3, 1980 and received its Certificate of Authority on April 9, 1981. PIAC commenced operations in 1982. Since inception, the Company's sole shareholder has been The Penn Mutual Life Insurance Company (PML), a Pennsylvania domiciled life insurer.

CAPITALIZATION

As of the prior examination date (12/31/2003), the Company was authorized to issue 1,000 shares of common stock at a par value of $2,500 per share. All shares are currently outstanding. There were no changes in this regard during the current examination.

The Company's Gross Paid-In and Contributed Surplus remained unchanged during the examination period and amounted to $92,868,751 at the December 31, 2006 examination date.

During the examination period the Company made the following dividend payments to its sole shareholder (as approved by the Delaware Insurance Department):

2004-	$21,000,000
2005-	$23,000,000
2006-	$20,400,000
Total-	**$64,400,000**

HOLDING COMPANY SYSTEM

As a wholly owned subsidiary of PML, the Company is a member of an Insurance Holding Company System as defined by Chapter 50 of the Delaware Insurance Code. PML concentrates its core activities in the sales of individual life insurance and individual annuities. At December 31, 2006, PML reported the following financial data:

Assets - General Account	$ 6,365,638,160
Assets - Separate Account	$ 3,607,225,154
Capital & Surplus	$1,295,641,662
For 2006:	
Premium and other product revenue	$989,076,916
Net Income	$ 56,694,478

During the period under examination, the Company and PML utilized an intercompany short term borrowing program designed to facilitate liquidity needs. This borrowing program has been utilized in years past, however it was not utilized during 2006. The prior examination made a recommendation that the agreement be reduced to writing. During the current examination period the Company complied with this recommendation.

The following organizational chart shows the members of the Holding Company System at December 31, 2006:

Penn Mutual Life Insurance Company (PA- 67644)

- Penn Janney Fund Inc.
- Pennsylvania Trust Company
- Horner Townsend & Kent, Inc.
- Independence Capital Management Inc.
- The Penn Insurance and Annuity Company (DE- 93262)
- Indepro Corp
- ISP Parker/Hunter Corp.
- Penn Series Fund, Inc.
- Independence Square Properties LLC
- Janney Montgomery Scott LLC

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

Year	Admitted Assets+++	Capital & Surplus	Premiums & Annuities	Surrender Benefits	Net Income	Dividend to Stockholders
2003	$990,039,005	$107,501,204	$36,746,620	$ 13,528,183	$19,991,143	$17,400,000
2004	991,353,198	111,845,786	30,947,498	13,816,101	23,752,209	21,000,000
2005	978,241,043	110,244,620	33,001,509	15,746,512	20,798,779	23,000,000
2006	958,778,311	106,451,177	29,590,194	21,093,915	18,849,627	20,400,000
Change- 2003 - 2006	(31,260,694)	(1,050,027)	(7,156,426)	7,565,732	(1,141,516)	N/A

+++ = Admitted Asset amounts exclude assets from the Separate Accounts Statement

The following is noted with regards to the Growth of the Company:

- Admitted Assets decreased ($31,260,694) or 3.2% from 2003-2006
- Capital & Surplus decreased ($1,050,027) or (.99%) from 2003 – 2006
- Premiums & Annuity Considerations decreased ($7,156,426) or (24.19%) from 2003 – 2006
- Surrender Benefits increased $7,565,732 or 55.93% from 2003 – 2006
- Net Income during the examination period (2003 - 2006) totaled $ 63,400,615
- Total Dividends paid during the examination period (2003 - 2006) totaled $64,400,000

The information shown above indicates that the Company continues to produce a significant amount of net income. It is noted that though there has been significant net income reported during the examination period, it has been almost entirely offset by dividends paid to PML during the same period. The Company is allowed ordinary dividends on an annual basis of up to 10% of surplus or 100% of net income so long as they are paid out of positive unassigned funds. For each year under review, the Company's dividends qualified as ordinary.

MANAGEMENT AND CONTROL

The business and affairs of the Corporation shall be managed under the direction of the Board of Directors.

The bylaws of the Company do not specify a specific number of Directors of the Company but instead allow the shareholders to elect any number of Directors from time to time as they deem necessary. As of December 31, 2006 the following were the Directors of the Board, elected and serving:

Director	Primary Occupation
Robert E. Chappel,	CEO & Chairman Penn Mutual Life Insurance Company
Peter John Vogt	Executive VP & Chief Financial Officer Penn Insurance & Annuity Company
Daniel J. Toran	President & COO Penn Mutual Life Insurance Company
Ernest K Noll	Retired Penn Mutual Life Insurance Company

As of December 31, 2006 the following were the Officers of the Company serving as elected by the Board of Directors:

Officer	Position
Robert E. Chappel	Chairman of the Board
Daniel J. Toran	President
Franklin L Best, Jr.	Secretary & Counsel
Peter John Vogt	Executive VP & Chief Financial Officer
Susan Twine Deakins	VP & Chief Actuary
Kyle Lee Elken	VP & Controller

INTERCOMPANY AGREEMENTS

Service Agreement with PML

PIAC does not maintain any employees. A Service Agreement with PML has been in effect since July 28, 1980. The services provided under this agreement include, but are not limited to:

- Accounting
- Tax & Auditing
- Legal
- Actuarial
- Sales
- Underwriting
- Data Processing Operations
- Communications Operations
- Investment

Per the agreement, PIAC is permitted to contract with third parties (both affiliated and unaffiliated). In addition, PIAC may contract with affiliated third parties to assist in providing services outlined above.

Compensation/reimbursement: the Company is charged an amount equal to all expenses, direct and indirect, reasonably and equitably determined to be attributable to PIAC by PML for services and facilities provided. PML is to submit to PIAC within thirty (30) days of the end of each calendar month a written statement of charges due to PML from PIAC. In turn, PIAC shall submit payment of such charges within thirty (30) days of receipt of such written statement.

Federal Income Tax Allocation & Payment Agreement

The Company is party to a Federal Income Tax Allocation & Payment Agreement between the "Domestic Life Insurance Members of the Penn Mutual Life Insurance Company Affiliated Group Filing a Consolidated Federal Income Tax Return." A review of the agreement noted the following:

- Executed on February 10, 1983

- The agreement has been amended twice but not during the current examination period.

- PIAC "Shall pay Penn Mutual a tax charge equal to the amount of federal income tax each such subsidiary company would have paid if it had filed a separate federal income tax return." This tax charge is not to exceed the amount of the tax the Company would have paid if it had filed a separate federal income tax return.

- Settlements under the agreement are to be made within 45 days of the filing of each estimated and final consolidated return, except in the case of a refund due to PIA. Penn Mutual may defer such refund until 30 days after Penn Mutual actually receives the refund (from the IRS).

- Termination- All parties agree to termination in writing and if the group fails to file a return for any reason for any taxable year.

Intercompany Loan Agreement

The Company is party to an intercompany loan agreement between Penn Mutual and PIAC whereby, Penn Mutual and PIAC both agree to lend certain amounts as mutually agreed upon to the other party of the agreement should said party experience a cash shortfall that would necessitate such a loan.

The purpose of the loan is to allow the affiliates to meet short-term cash needs without having to liquidate certain long-term securities that would result in a realized loss. No loans were made during 2006.

Interest due on a loan is based on Prime Rate and repayment is defined in the agreement and is reasonable. The terms of the agreement are fair and equitable.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to write insurance in 48 states and the District of Columbia. The Company is not licensed in New York and New Hampshire. For 2006, the Company wrote $28,831,209 in direct business for the following lines:

Life Insurance (Ordinary)	$ 28,289,745
Life Insurance (Group)	541,461
Annuities	1,359,792
Total	$ 30,190,998

The following states had the largest premium written in 2006:

Pennsylvania	$13,834,570
California	1,826,540
Florida	1,416,577
Texas	1,257,419
Arizona	951,391

As discussed above, the Company's three lines of business are life insurance, annuities, and deposit-type funds. A brief description of each follows:

Life Insurance

At its inception, it was the role of the Company to underwrite the Universal Life (UL) business of the Penn Mutual Group. Up until 1986, all such business was placed in the Company, either through the Company writing the business directly or assuming the business through a reinsurance agreement with its parent, PML. Due to poor initial results and surplus strain, no new UL business was placed in the Company starting in 1986. However, in 2003 the Company did have $3,130,856 in new written premium for a new interest sensitive whole life policy.

The following chart presents the Company's life insurance writings for the period under examination. NOTE: Except where indicated as New (first year) all business is renewal business

Year	New Ordinary	Direct Ordinary	Assumed Ordinary	Direct Group
2006	$ 931,646	$28,717,891	$12,055,925	$541,461
2005	1,034,444	30,656,319	11,926,521	573,939
2004	694,852	28,728,356	12,800,481	596,355
2003	3,130,856	31,246,102	13,211,641	615,155

Annuities

In 1992, the Company began issuing Single Premium Immediate Annuities (SPIA). The Company reported the following annuity considerations from the prior exam date through the current exam date (including the entire period under examination):

2006	$1,359,792
2005	1,144,847
2004	1,305,371
2003	3,581,878

Deposit-Type Funds

The Company reported the following amounts for Deposit-Type Funds for the period under examination (deposits received during the year):

Year	Supplemental Contracts
2006	$5,111,902
2005	8,007,257
2004	5,266,858
2003	6,191,567

These amounts are reported in the Separate account Annual Statement, reflecting that the investment risk resides with the contract holder.

The Company's Supplemental Contracts are broken down into two groups: the first are Individual Deposit-Type Funds represent Deferred Variable Annuities which the Penn Mutual Group markets as the "Pennant" product. The second are Group Annuity funds, which are a one-time issue designed for a particular investment vehicle.

As indicated, the amounts the Company reported for Single Premium Immediate Annuities and Deferred Variable Annuities declined during the later years under examination. Sales of Single Premium Immediate Annuities are interest-rate driven and are extremely competitive. As per Deferred Variable Annuities, the Penn Mutual Group has decided to place the bulk of its production with the parent, Penn Mutual Life Insurance Company.

The Company's function within the PML group has not changed significantly during the examination period. The significant majority of net premiums written continue to be renewal business with a small amount of first year direct SPIA business being placed in PIAC. Per Company management, business is placed in PIA on a situational basis and PIA & PML are not intended to compete with each other. Per Company management, the first year direct SPIA business is no longer being placed in PIAC. This became effective during 2004 (the first year of the current examination cycle).

REINSURANCE

The Company’s 2006 Annual Statement (Exhibit 1- Part 1) reported the following distribution of premiums and annuity considerations:

Direct-	$ 30,190,998
Assumed-	$ 12,055,925
Ceded-	$ 12,656,729
Net-	**$ 29,590,194**

Assumed

PIAC assumes reinsurance only from its parent, PML. It was the policy of the Penn Mutual Group that until 1986 all universal life business was placed in PIAC. This was accomplished by having PIAC write the business directly or by having PIAC assume it from PML. The Company is a party to a 100% coinsurance treaty with PML. The amount In-force at year-end 2006 was $1,449,426,140 on a coinsurance basis, which is down from $1,753,843,527 as of the December 31, 2003 examination date, a reduction of ($304,417,387). For the period under examination the Company assumed the following premiums from PML:

2006-$12,055,925
2005- 11,926,521
2004- 12,800,481

The Company maintains two additional assumed contracts from PML that are not financially significant.

Ceded

The Company's ceded reinsurance program (as a whole) can be divided into two parts: Non-Executive Benefit and Executive Benefits. For the purposes of this report, we are commenting on the Executive Benefit portion only as it is the financially significant aspect of the Company ceded reinsurance program.

The Executive Benefit business consists of a block of large face amount policies sold to corporations in 1983 to insure the lives of key employees. PIAC wrote the business directly and ceded, on a Yearly Renewable Term (YRT) basis, a percentage of the death benefit, with the percent usually being 100% in the first year of the policy, and 85% for the years thereafter. In 2006, the Company ceded $9,879,743 in premiums to GTE Life Insurance Company of Hamilton, Bermuda (GTE Life) under this program. These premiums account for 78.1% of all ceded premiums during 2006.

At December 31, 2006, the Company took ceded reinsurance reserve credits of just $614,438 on gross aggregate policy reserves. Net carried reserves were $816,009,457. The small amount of reserve credit can be attributed to the Penn Mutual Group's policy of utilizing YRT reinsurance for its universal life business. All of the Company's reinsurance contracts contain adequate arbitration and insolvency clauses. In addition, amounts ceded to unauthorized reinsurers are adequately secured.

ACCOUNTS AND RECORDS

The Company's 2006 books and records were audited, on an annual basis by the firm of PriceWaterhouseCoopers, LLP, Certified Public Accountants (PWC). PWC was the Company's independent auditor for all years under examination.

Selected workpapers of PWC's 2006 audit were obtained by the examination and utilized to the fullest extent possible.

The examination reviewed and tested policy loans outstanding as of December 31, 2006 including applicable interest receivable (due and accrued). For certain tested items the Company was able to provide evidence supporting interest due and accrued amount as of December 31, 2006.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of The Penn Insurance and Annuity Company, Inc., as determined by this examination, as of December 31, 2006.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Accounts
Examination and Surplus Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. With the exception of Bonds Aggregate Reserve for Life Policies & Contracts and Separate Accounts Liabilities, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the "exception basis". Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

Analysis of Assets
December 31, 2006

	Ledger Assets	Examination Adjustments	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 584,359,358	$ 0	$ 0	$ 584,359,358	1
Preferred Stock	13,929	0	0	13,929	
Cash (including Short-Term Investments)	16,320,097	0	0	16,320,097	
Contract (Policy) Loans	330,615,060	0	0	330,615,060	
Other Invested Assets	3,089,784	0	0	3,089,784	
Receivable for Securities	1,100,476	0	0	1,100,476	
Aggregate Write-ins for Invst. Assts.	1,624,003	0	1,624,003	0	
Investment Income Due & Accrued	20,097,688	0	0	20,097,688	
Uncollected Premiums (in the course of collection)	(1,599,602)	0	0	(1,599,602)	
Amounts Recoverable from Reinsurers	3,788,845	0	190,653	3,598,192	
Net Deferred Tax Asset	6,224,004	0	5,507,004	717,000	
Guaranty Funds Receivable	260,258	0	0	260,258	
Aggregate Write-Ins for other than Invested Assets	206,071	0	0	206,071	
Total Assets (excluding Separate Accounts)	**$ 966,099,971**	**$ 0**	**$ 7,321,660**	**$ 958,778,311**	
Separate Accounts Assets	184,203,676	0	0	184,203,676	
TOTAL ASSETS	**$1,150,303,647**	**$ 0**	**$ 7,321,660**	**$1,142,981,987**	

Liabilities, Surplus and Other Funds December 31, 2006

		Note
Aggregate Reserves for Life Contracts	$ 816,009,457	2
Liability for Deposit-Type Contracts	18,719,105	
Contact Claims: Life	4,349,570	
Transfers to Separate Accounts Due or Accrued	(96,877)	
Taxes, Licenses & Fees	110,624	
Current Federal and Foreign Income Tax	1,749,507	
Remittances and Items Not Allocated	821,712	
Asset Valuation Reserve	4,245,474	
Reinsurance in Unauthorized Companies	677,626	
Payable to Affiliates	3,515,959	
Drafts Outstanding	2,186,347	
Aggregate Write-Ins for Liabilities- Interest on Unpaid Death Claims	38,630	
Total Liabilities (excluding Separate Accounts)	852,327,134	
Separate Accounts Liabilities	184,203,676	3
TOTAL LIABILITIES	$1,036,530,810	
Common Capital Stock	2,500,000	
Gross paid in and contributed surplus	92,868,751	
Unassigned funds (surplus)	11,082,426	
Surplus	**$ 103,951,117**	
TOTAL CAPITAL & SURPLUS	**$ 106,451,177**	
TOTAL LIABILITIES, CAPITAL & SURPLUS	**$1,142,981,987**	

Summary of Operations
December 31, 2006

Income		
Premiums and Annuity Considerations	$29,590,194	
Considerations for Supplementary Contracts With Life Contingencies	55,408	
Net Investments Income	58,074,689	
Amortization of Interest Maintenance Reserve	(708,400)	
Commissions and Expense Allowances on Reinsurance Ceded	973,878	
Income from Fees Associated with Management of Separate Accounts	2,790,160	
Aggregate Write-Ins for Miscellaneous Income	222,062	
Total Income		**$90,997,991**
Expenses		
Death Benefits	$25,968,175	
Annuity Benefits	52,240,586	
Disability Benefits and Benefits under A&H Contracts	589,921	
Surrender Benefits and Withdrawals for Life Contracts	21,093,915	
Interest and Adjustments on Contract or Deposit-Type Contract Funds	1,258,768	
Payments on Supplementary Contracts With Life Contingencies	156,194	
Increase in Aggregate Reserves for Life Contracts	(11,699,088)	
Commissions on Premiums, Annuity Considerations & Deposit-Type Contract Funds (Direct Business Only)	2,271,015	
Commissions and Expense Allowances on Reinsurance Assumed	688,297	
General Insurance Expense	7,417,691	
Insurance Taxes, Licenses & Fees	859,114	
Net Transfers (from) Separate Accounts	(38,087,226)	
Total Expenses		**$62,757,362**
Net Gain From Operations before Federal Income Taxes		**$28,240,629**
Federal Income Taxes	8,231,429	
Net Gain From Operations		**$20,009,200**
Net realized capital losses net of taxes	(1,159,573)	
NET INCOME		**$18,849,627**

Capital and Surplus Account
December 31, 2005 to December 31, 2006

Capital and Surplus, December 31, 2005		**$110,244,620**
Net Income		**18,849,627**
Additions:		
Change in Net Deferred Income Taxes	2,049,000	
Change in Asset Valuation Reserve	417,572	
Total Additions		**2,466,572**
Deductions:		
Change in Net Unrealized Capital (losses)	(202,360)	
Change in Non-admitted Assets and Related items	(3,829,656)	
Change in Liability for Reinsurance in Unauthorized Companies	(677,626)	
Dividends to Stockholders	(20,400,000)	
Total Deductions		**(25,109,642)**
Change in Surplus during the year		**(3,793,443)**
Capital and Surplus, December 31, 2006		**$106,451,177**

SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination made no financial adjustments.

NOTES TO THE FINANCIAL STATEMENTS

1. Bonds $584,359,358

Procedures were performed to confirm the existence and ownership of the investments reported in Schedule D- Part 1 and the other investment schedules. These procedures were performed without exception. The Company continues to invest primarily in bonds with ratings of "1" or "2" per the NAIC SVO Manual. The Company's bond portfolio accounted for 61.0% of total admitted assets (excluding Separate Accounts). The bond portfolio as of the December 31, 2006 examination date consisted of the following:

NAIC Designation	12/31/2006
1 - 2	95.5%
3 - 4	3.9%
5 - 6	0.5%

The custodial agreements applicable to the custodians holding the Company's invested assets were reviewed in detail and were noted to be in compliance with the Company's investment policy and were noted to contain the NAIC's Indemnification Clause.

2. Aggregate Reserves for Life Policies and Contracts $816,009,457

The amount shown above agrees with the amount reported on the Company's December 31, 2006 Annual Statement. As per Exhibit 5 of the 2006 Annual Statement, this reserve is distributed as follows:

Ordinary	
Life Insurance-	$ 710,492,269
Annuities (excluding supplementary contracts)-	$ 92,282,798
Supplementary Contracts-	$ 1,298,804
Accidental Death Benefits-	$ 21,572
Disability- Active Lives-	$ 5,796
Disability- Disabled Lives-	$ 2,878,355
Miscellaneous Reserves-	$ 956,433
Total Ordinary-	**$ 807,936,027**
Group	

Life Insurance-	$ 7,331,803
Annuities (excluding supplementary contracts)-	$ 741,623
Supplementary Contracts-	$ 0
Accidental Death Benefits-	$ 0
Disability- Active Lives-	$ 0
Disability- Disabled Lives-	$ 0
Miscellaneous Reserves-	$ 0
Total Group-	**$ 8,073,426**
Total Policy Reserve-	**$ 816,009,453***

* = $4 difference from Balance Sheet due to rounding.

It should be noted that in addition to the annuities reported in Exhibit 5, the Company reports period-certain immediate annuities which do not contain life contingencies on Page 3, Line 3 as part of the Deposit-Type Contract liability. These annuities amounted to $18,719,105 at December 31, 2006.

The Company's policy and contract reserve valuation material was reviewed by INS Consultants Inc. (INS), the examination actuarial consultants. The underlying data from the Company's policy master file was tested by the examiners. No exceptions were noted during either the examiner data testing or the INS review of the Company's reserve. INS concluded that the Company's reserve for life policies and contracts appears to be fairly stated.

3. Separate Accounts Liabilities **$184,203,676**

The amount shown above is equal to the amount reported on the Company's 2006 Balance Sheet. This amount is detailed on the Separate Account Annual Statement. On the 2006 Separate Account Annual Statement, PIA reported the following:

Other Contract Deposit Funds (Pennant variable annuities)	$188,037,383
Other Contract Deposit Funds (Hearthstone Separate Account)	$ (3,930,584)

CARVM Expense Allowance	$ 82,443
Misc. amounts owed to separate account by general account	$ 14,434
Total	**$184,203,676**

The Company's valuation material associated with the Separate Accounts Liabilities was also reviewed by INS. The underlying data from the Company's policy master file was tested by the examiners. No exceptions were noted during either the examiner data testing or the INS review of the Company's reserves. INS concluded that the Company's reserves for Separate Accounts Liabilities appear to be fairly stated.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The examiner reviewed the prior Report on Examination along with the PIAC's compliance with prior examination recommendations, comments and concerns. Based on that review, PIAC appears to have complied with all applicable prior Report on Examination recommendations, comments and concerns.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

SUMMARY COMMENTS

The following is a summary of significant events occurring since the prior examination date and previously included within this Report on Examination:

1) The Company paid $64,400,000 in dividends to PML (the Company's parent) during the current examination period, including $20,400,000 paid during 2006. All dividends were

considered ordinary (as defined by the Delaware Insurance Code) and all required approvals were obtained.

2) PIAC reported $63,400,615 in net income during the examination period, including $18,849,627 in 2006.

3) The Company operations continue to be primarily restricted to managing a closed book of business. Of $30,190,998 in Direct Written Premiums in 2006, only $931,646 or 3.1% were from first year business.

4) PIAC intends to begin writing an Indexed Universal Life Product during the third quarter of 2007. The Company estimates for 2007 and 2008 premiums resulting from this new business are within the Company's underwriting capacity. See Subsequent Events for additional information

CONCLUSION

As a result of this examination, the financial condition of The Penn Insurance and Annuity Company as of December 31, 2006 was determined to be as follows (including Separate Accounts):

	Current Examination	12/31/2003 Examination	Changes- Increases/(Decreases)
Total Assets	$1,142,981,987	$1,234,335,736	($91,353,749)
Total Liabilities	$1,036,530,810	$1,126,834,533	($90,303,723)
Capital & Surplus	$ 106,451,177	$ 107,501,203	($ 1,050,026)

In addition to the undersigned, Jim Blair, Jr., CFE, CPA, (Supervising Examiner); Albert Piccoli, CFE; and John White, CFE, participated in the examination along with actuarial services provided by INS Consultants, Inc.

Respectfully submitted,

, CFE
Examiner In-Charge
State of Delaware

SUBSEQUENT EVENTS

The examination reviewed for significant and/or material events occurring subsequent to the December 31, 2006 examination date. Items considered significant/material are those that have had or could have a material impact on the financial position of the Company. The following such events are noted:

- New line of business for 2007- PIAC intends to begin writing an Indexed Universal Life Product during the third quarter of 2007. The Company estimates for 2007 and 2008 premiums resulting from this new business are within the Company's underwriting capacity. This business will be reinsured to some extent by the Company's parent, Penn Mutual. The extent of that reinsurance has not yet been determined.